

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 NSC-05 CIEP-01

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TAGS: ECON, EFIN, SP

SUBJ: NEW GOS ECONOMIC MEASURES

1. SUMMARY: MINISTER OF FINANCE VILLAR MIR ANNOUNCED ON TELEVISION FEB 26 OUTLINE OF GOS PROGRAM TO DEAL WITH CURRENT PROBLEMS OF BALANCE OF PAYMENTS DEFICITS, INFLATION, AND UNEMPLOYMENT. FULL DETAILS OF PROGRAM ARE STILL TO BE PUBLISHED. MOST SIGNIFICANT FEATURE IS INTENTION TO UNDERTAKE EXTENSIVE TAX REFORM DURING 1976, SOMETHING FEW SPANIARDS BELIEVE THIS GOVERNMENT SERIOUSLY INTENDS TO CARRY OUT BUT WHICH VILLAR MIR GAVE PARTICULAR EMPHASIS. PROGRAM AS ANNOUNCED APPEARS TO DO LITTLE IF ANYTHING TO CONTROL INFLATION, AND CERTAIN ASPECTS OF IT COULD FEED INCREASED INFLATIONARY PRESSURE OCCASIONED BY RECENT DEVALUATION. END SUMMARY.

2. VILLAR MIR OUTLINED ON TELEVISION THE GOVERNMENT'S ECONOMIC PROGRAM AS FORMULATED SO FAR AND WHICH FOR FIRST TIME IS BEING SENT TO CORTES FOR APPROVAL. HE SAID PRESENT
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ECONOMIC SITUATION WAS CHARACTERIZED BY NEAR STAGNATION

OF OUTPUT, DECLINE IN INVESTMENT, INCREASE IN UNEMPLOYMENT, SHARP PRICE RISES, AND A LARGE FOREIGN DEFICIT, IN SHORT A SITUATION OF "GRAVE DIFFICULTIES." MAJOR OBJECTIVES OF NEW MEASURES WERE TO BE FULL EMPLOYMENT AND "SOCIAL JUSTICE."

3. DETAILS ANNOUNCED SO FAR INCLUDE FOLLOWING:

A) ON CERTAIN BASIC AGRICULTURAL PRODUCTS, PRICE CONTROLS AND, IF NECESSARY, SUBSIDIES OF UP TO \$150 MILLION.

B) A FREEZE DURING 1976 ON DIVIDENDS, OTHER FORMS OF PROFIT DISTRIBUTIONS, AND RENTS, ALLOWING NO INCREASES REGARDLESS OF RISE IN COST OF LIVING.

C) AN UNSPECIFIED RESTRICTION ON SALARY INCREASES. WHETHER THIS WILL BE CONTINUATION OF PRESENT SYSTEM ALLOWING INCREASES AT LEAST EQUAL TO RISE IN COST OF LIVING OVER PREVIOUS 12 MONTHS OR WHETHER SOMETHING NEW WILL BE INTRODUCED IS NOT CLEAR.

D) EFFECTIVE IMMEDIATELY AN INCREASE IN TAX EXEMPT INCOME (TO ABOUT \$2,400 FROM \$2,100); INDIRECT TAX INCREASES (WHICH WE ARE TOLD WILL BE 10 TO 20 PERCENT) ON LUXURY ITEMS, INHERITANCE, ALCOHOL, AND OTHERS; IMPROVEMENT IN TAX INSPECTION.

E) A SECOND STAGE IN TAX REFORM, TO BE INTRODUCED NOT LATER THAN APRIL 28, DESIGNED TO COUNTER TAX FRAUD AND TO MODIFY PERSONAL INCOME TAX IN SOME AS YET UNSPECIFIED MANNER.

F) BY JUNE 22 A "WHITE PAPER" ON COMPLETE TAX REFORM TO BECOME EFFECTIVE BEGINNING IN 1977.

G) TO DEAL WITH UNEMPLOYMENT, PROGRAM OF INVESTMENT INCENTIVES IN AGRICULTURE, INDUSTRY, AND HOUSING. ASSURANCE OF ADEQUATE PUBLIC AND PRIVATE CREDIT.

H) TAX INCENTIVES TO ASSIST THE STOCK MARKET (WHICH IS AT ITS LOWEST POINT FOR SOME TIME.)

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4. MANY DETAILS OF GOVERNMENT'S ECONOMIC PROGRAM ARE STILL BEING WORKED OUT SO THAT WHAT VILLAR MIR PRESENTED ON TELEVISION WAS NECESSARILY VAGUE ON MOST POINTS. THIS WAS TRUE OF PROMISED MEASURES FOR TAX REFORM, AND AREA WHERE THERE IS MUCH INTEREST AND WIDESPREAD SCEPTICISM VILLAR MIR TOOK NOTE OF THIS SAYING; "I BEG OF YOU TO BELIEVE ME THAT THE GOVERNMENT IS COMMITTED AND THIS COMMITMENT HAS A DEFINITE TIMETABLE." ISSUE OF FISCAL REFORM IS

CERTAIN TO ATTRACT INCREASING ATTENTION NOW AS AN
INDICATOR OF POLITICAL CHANGE, AND GOVERNMENT WILL BE
CAREFULLY JUDGED BY WHAT IT DOES IN THIS AREA.

5. THERE IS SO FAR LITTLE IN THE PROGRAM TO DISCOURAGE
FEAR OF GROWING INFLATIONARY PRESSURES AS A RESULT OF
RECENT DEVALUATION AND INCREASING LABOR DEMANDS.
VILLAR MIR WAS PARTICULARLY VAGUE ON GOS INTENTIONS TO
LIMIT SALARY INCREASES, AND THERE IS CONSIDERABLE
CON-
CERN THAT HE INTENDS TO OVER EXPAND OFFICIAL CREDIT TO
SPECIFIED SECTORS AND INDUSTRIES. THERE IS, IN FACT,
NO INDICATION SO FAR THAT FISCAL AND MONETARY POLICY
WILL BE TIGHTENED MUCH. IF AT ALL, TO OFFSET INFLATIONARY
PRESSURES. CONSEQUENTLY, THERE IS NOT MUCH REASON TO BE
OPTIMISTIC THAT THE PROGRAM OF INFLATION AND THE BALANCE OF PAYMENT
UNDER ANY REAL CONTROL. ON THE POSITIVE SIDE, THE GOVERNMENT
HAS BEEN QUITE OPEN AND EXPLICIT IN DESCRIBING THE
PRESENT ECONOMIC DIFFICULTIES, BUT IT HAS NOT YET SHOWN
MUCH WILLINGNESS TO TAKE THEM MEASURES THAT WOULD NORMALLY
ACCOMPANY A DEVALUATION AND THAT ARE NECESSARY TO GET
THE ECONOMY UNDER BETTWE CONTROL.
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